

A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1951 August



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Experiment in self-control

Ninety thousand lenders have joined in the Voluntary Credit Restraint Program since its inception in March. Applying the stated principles to specific cases is a difficult business, but the established committees are meeting the challenge squarely.

How do you define inflation? Most people would answer, "a swift rise in prices." The Voluntary Credit Restraint Committee's definition is more descriptive: "a condition in which the effective demand for goods and services exceeds the available supply, thus exerting an upward pressure on prices."

An important segment of the "effective demand" which created the post-Korea inflation has been financed by credit expansion. Braking such an inflationary spiral requires that some restraints on credit be imposed. One method is by mandatory controls, and these have been introduced for certain types of credit. An alternative or supplementary measure can be a voluntary campaign to restrict nonproductive loans. Since last March many bankers and other lenders have been cooperating in just such a voluntary program.

How it all started

Authorization for this type of program was included in the Defense Production Act of last September, which provided for an exemption from antitrust legislation for groups of lenders meeting to curtail credit extensions. By early 1951, most of the ground work for implementing this authority had been completed. In mid-March, after the required approval of the Attorney General had been received, 12 prominent representatives of commercial banks, insurance companies, and investment banking firms met with the Federal Reserve Board to establish a formal organization. In its first meet-

ing this new Voluntary Credit Restraint Committee endorsed a "Program for Voluntary Credit Restraint" which has served as the plan's Magna Carta.

In the following months numerous regional committees comprising representatives of various types of financing institutions have been set up. Governor Powell of the Federal Reserve Board chairmans the national committee which has been expanded to include representatives of mutual savings banks and savings and loan associations as well. The initial statement of objectives was mailed to over 9,000 institutions in the Seventh District alone, including brokers and dealers, credit unions, finance companies, and similar organizations, in addition to the major types represented on the committees.

Heads of most national and regional associations of financial institutions have heartily endorsed the program. By and large the lenders have been cooperative. Many of them believe that Voluntary Credit Restraint can serve as an answer to those who propose expansion of direct or selective credit controls by Government agencies.

There are precedents for the Voluntary Credit Restraint Program in the Capital Issues Committee of World War I and the program of the American Bankers Association in 1948. Never before, however, has the voluntary restraint of credit been tackled on so broad a scale. *All* lenders, in addition to applying the usual tests of credit worthiness, are asked to apply a new one: "Is this loan in the national interest?" Often this means passing up excellent credit

risks and the forfeiture of profit-making opportunities.

Tying all types of financial institutions into the Voluntary Credit Restraint Program has been necessary since borrowers may seek credit from any of several types of lenders. Many insurance companies have cooperated fully by scrutinizing with care those propositions which previously have been submitted to banks and rejected because of their inflationary nature.

Which loans are inflationary?

The program's general standard is: "Does the loan commensurately increase or maintain production, processing and distribution of essential goods and services?" Loans are considered proper, for example, if they are granted for any of the following reasons: (1) for defense production, (2) for staple products, (3) to provide additional working capital needed because of higher costs, and (4) for financing the normal business of security dealers. Improper loans include those for the purpose of: (1) acquiring corporate equities in the hands of the public, and (2) making speculative investments.

Inventory Loans. The national Voluntary Credit Restraint Committee has issued a series of bulletins expanding the original Statement of Principles. The first of these, dealing with inventory loans, was issued in mid-March. Inventory buying contributed significantly to the price rise which followed the Korean war. Only part of this record accumulation was the natural result of higher levels of business activity and higher prices. For this reason the national Committee urged that all financing institutions, "(1) refrain from financing inventory increases above normal levels relative to sales or...other conservative yardsticks, and (2) encourage borrowers who already have excess inventories to bring these commitments...in line..."

Capital Spending. Bulletin number two is concerned with the second important category of business demand—capital spending. The huge

THE FRAMEWORK OF SELECTIVE CREDIT CONTROLS

Federal Reserve's Selective Credit Controls

- ▶ Regulation W
consumer
instalment credit
- ▶ Regulations T & U
loans for
purchasing and
carrying securities
- ▶ Regulation X
non-insured loans
on new non-farm
residences

Voluntary Credit Restraint Committees

- ▶ Loans on real estate
not covered by
Regulation X
- ▶ Loans to business
- ▶ New security issues
of corporations
and state and
local governments

expansions now planned or under way are expected to total over 24 billion dollars this year and will probably exceed the business and individual savings which will be available for financing these expenditures. Approximately half of these outlays will be made by defense or defense-supporting industries. Much of the remainder could be postponed or abandoned. The Committee has listed three classes of projects which should be deferred if possible: (1) facilities to improve the competitive position of a producer of nonessential goods, (2) expenditures by concerns in distribution or service lines which are not defense supporting, and (3) facilities for the manufacture of consumer goods not related to the defense effort.

State and Local Governments. At all levels of nonfederal government, large volumes of

new capital spending projects financed by large-scale borrowing are "in the works." A number of these projects which require increased indebtedness can be postponed. The Committee frowns upon borrowing for: (1) the payment of soldiers' bonuses, (2) replacement of existing facilities which can continue to function, (3) acquisition of property not now needed or the purchase of privately owned utilities, and (4) construction of such items as war memorials and recreational facilities. Defense Mobilization Director Wilson has asked municipalities to submit all proposed bond issues totaling over one million dollars to the regional investment banking committees for review.

Real Estate Loans. Residential property covered by Regulation X is not within the province of the voluntary program. The Committee is concerned, however, with loans for the purchase of existing residential, agricultural, and commercial property. There is no desire to make the transfer of real estate impractical, but it is important to limit "the amount of additional credit created in the process of real estate transfers." In its bulletin number four, the Committee has requested that loans on existing one-to-four family properties be held within the limits set by Regulation X for new construction. In addition, it has recommended that all other loans on real estate be screened as to purpose, and has suggested that loans on commercial properties be restricted in most cases to an amount which will not "cause the total amount of credit outstanding with respect to the property to exceed 66⅔ per cent of the fair value."

How the committees work

A lender wishing to cooperate with the program is encouraged to seek the advice of his regional committee on a doubtful loan application. The essential facts of the proposed loan are recorded on a form without revealing the identity of the loan applicant. Each commit-

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Bumper crops in prospect

Production to exceed all years but 1948. Large corn harvest may not equal requirements.

"AS GOES THE CORN CROP, SO GOES LIVESTOCK." Thus, the lively interest in the USDA's July report of crop production prospects, the first to carry estimates of the year's corn harvest. "Corn is king" in the great Midwest farming region which includes the Seventh Federal Reserve District. This has been true for many years, although for a brief time following the area's first submission to the plow, wheat occupied most of its cropland. However, as the "staff of life" moved farther west, wresting the better portions of the semi-arid short-grass plains from the longhorns and the cowboys, corn took over in the Midwest and has continued unchallenged as the farmers' front line crop in this area.

Production this year is expected to reach 3.3 billion bushels. Last year's harvest was 3.1 billion. But consumption in the year between these harvests will total 3.2 billion, or more. Reserve stocks, therefore, are being chewed up to the extent of 100-200 million bushels—re-

Some U. S. production estimates

Crop	1950	Indicated 1951	Per cent change
Corn (million bu.) ..	3,131	3,295	+ 5
Wheat " " ..	1,027	1,070	+ 4
Oats " " ..	1,465	1,368	— 7
Barley " " ..	301	263	—13
Hay (million tons) ..	107	113	+ 6

ducing them by possibly one-fifth from the record 1950 level.

Corn production in Seventh District states is estimated to total 1,266 million bushels, one-seventh more than the 1950 crop. The increased output, if realized, would result from both a larger acreage and a higher yield per acre.

Corn's major use: livestock feed

Although it is the District's leading crop, corn as such has little claim to fame in a nation richly endowed with agricultural resources. Only minor amounts are required for direct human consumption, either as food or "fire-water." But as a raw material for the production of meat, milk, and eggs, it has no peer.

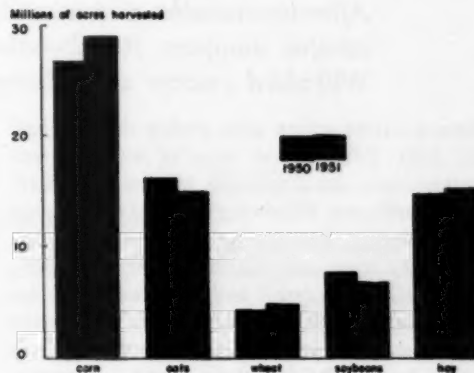
Nearly 9 of every 10 bushels of corn produced in the U. S. is fed to livestock; a little less than a bushel goes for food, industrial uses, and seed; a minor amount is exported. Furthermore, about 70 per cent of all grain fed to livestock is corn.

Oats and hay are the next most important crops in the District. Each occupies about 15 million acres of land. As with corn, their major use is livestock feed, even though trucks and tractors have replaced Dobbin as the source of power on farms. The oats acreage is reduced from 1950, and the indicated production in District states is 12 per cent less than last year's harvest but there is a very large carry-over on farms. A record hay production is indicated. In District states acreage is up 3 per cent but production may be about 13 per cent above last year.

Feed crops, as usual, are the heaviest contributors to total crop volume. Even though large harvests are indicated, farm supplies of feed grains per animal will be slightly less than the average of the last three years. Expanding livestock production, therefore, promises to exert pressure on feed supplies.

The over-all supply of fats and oils available

District farmers will harvest more corn and hay



for 1951-52 consumption will be very large if crops mature under favorable weather conditions. Soybean acreage nearly equals the 1950 record; cotton acreage is 58 per cent above last year; the flaxseed crop occupies only 5 per cent fewer acres than in 1950; peanut acreage is down 2 per cent. And production of animal fats is rising as livestock slaughter increases. Price weakness in fats and oils markets reflects this supply situation.

The wheat crop is adequate for all foreseeable requirements in the year ahead. International uncertainties, however, have led the USDA to recommend a slight increase in planting for 1952 harvest. This action recognizes that wheat has been the thumb on the right hand of American foreign policy in recent postwar years.

Production of deciduous fruits is expected to exceed that of 1950 by 10 per cent. Grape and sour cherry crops may set records and apple production will nearly match last year's tremendous crop. Peach production, indicated to be a fourth larger than last year for the U. S., is practically a lost crop in District states.

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Department store sales lose vigor

*After two months of spectacularly free buying, consumers became careful shoppers. Result—sales slowed, stocks accumulated.
Will third quarter sales slump be averted?*

DEPARTMENT STORE sales during the first half of 1951 followed the turn of world events rather than the disposable income of dollar-rich consumers. Following a period of vigorous sales during January and February, totals settled to levels only slightly higher than 1950. Ordinarily, no crystal ball is necessary to inform department store executives that, when consumer incomes rise, their cash registers ring more freely. The last three months, however, have witnessed increasing incomes but only a barely perceptible rise in sales.

During this time, consumers in Chicago, Detroit, Milwaukee, Indianapolis, and other District cities enjoyed rising incomes and steady employment, but used their additional earnings

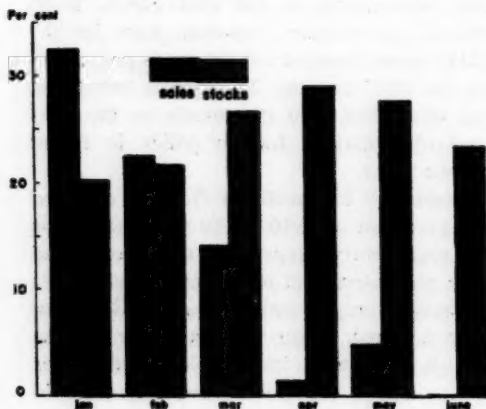
to retire debts, pay higher taxes, and add to savings. Apparently, people had temporarily bought themselves out during the winter months. Buyer resistance to sharply higher prices, failure of widely heralded shortages to appear, and more favorable international news also were important to the shift in consumer attitudes.

Stock-sales ratios soar

Stocks of many departments, already uncomfortably heavy, became more burdensome as sales receded, then leveled. This inventory problem has been a major source of worry to store executives. Beginning with February, stock-sales ratios generally started running higher than at any time since 1942. Only a few scattered women's apparel items showed lower ratios than in 1950. Women's apparel and accessory sections as a whole were not buried as deep in inventories as homefurnishings, piece goods, and men's wear departments.

Until the Korean crisis shaped up, stores attempted to keep stocks at a minimum level consistent with sales. Following June 1950, however, the emphasis changed to the accumulation of inventories in anticipation of higher demand, shortages, and price increases. Since demand has been spasmodic and few goods have actually become scarce, stores have been trying to work off their stocks by various stratagems including bargain sales, special purchases, and plain old-fashioned clearances. Any downturn in prices would undoubtedly stimulate consumer interest and help unload inventories. Localized price wars which followed the Supreme Court decision on certain aspects of

Stocks overtake sales in Seventh District...1951 increases over same periods last year.



"fair trade" laws indicate this is the case.

Michigan cities lead

Cumulative department store sales for January through June showed divergent movements both by cities and departments. Among the principal cities, Detroit boasted the greatest increase over the same period last year and outstripped the District average, despite the street railway strike during most of the second quarter. Indianapolis also exceeded the average. Milwaukee and Chicago sales increased the least. In those smaller cities where consumers are dependent more on factory pay rolls than on farm income, sales gains were much larger. Generally basement and main store sales showed about equal gains.

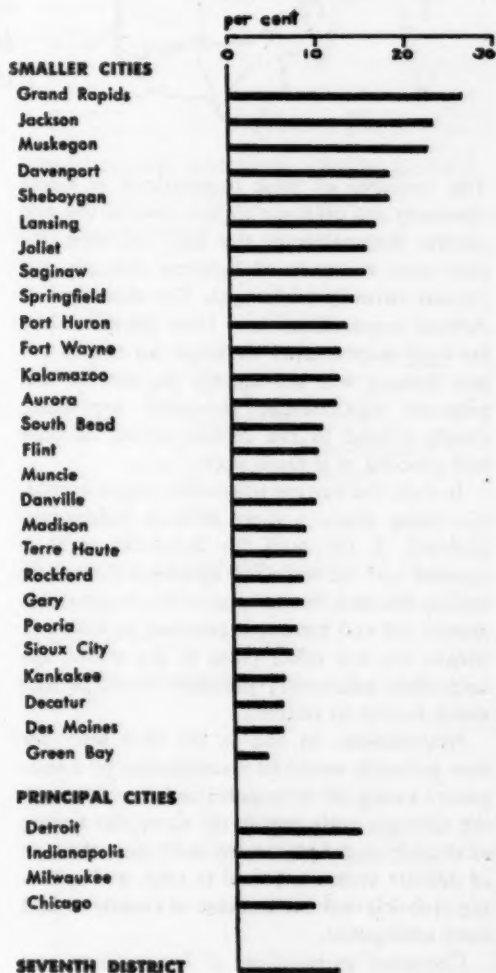
Homefurnishings sales were off to an auspicious start this year but lost ground after February and by May were hovering on the brink of a decline. Television and appliance sales have subsided in all the major cities. The buying jamboree of January and February and the numerous "white goods sales" maintained household textiles above year ago levels for the first six months. Decreases in piece goods were noted, however, particularly in Detroit. Smallwares counters, which contain everything from laces to books and silverware, also manifested differing sales tendencies. Silverware and jewelry were most active except in Chicago. Toilet articles showed moderate gains. Book and magazine sales reflected little change in District reading and writing habits as they continued at about the same pace as last year.

Women's apparel sales rise

Although cool wet weather may be the factor which dampened sales in some departments, women's apparel has recently picked up. Current consumer interest in lower priced clothing is emphasized in the sales strength of blouses, skirts, and sportswear, as well as inexpensive dresses. Sales in other departments may have

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First half sales increases vary widely among District cities—averaging 11 per cent over last year





THE Trend

An end to the war in Korea may bring a mild dip in business activity this fall, but underlying inflationary pressures will continue strong.

THE OPENING of truce negotiations in Korea obviously has been the biggest news of the past month. Regardless of the final outcome, the two basic elements of business strength will remain virtually unchanged. The objectives of defense preparedness have been determined by the total international situation; an end to active fighting will not change the size of this program significantly. Industrial expansion, closely related to the defense effort, likewise will proceed at a rapid pace.

In fact, the current truce talks might eventually bring about a more difficult inflationary problem, if the need for increased taxes is ignored and the tools for fighting inflation are unduly blunted. In addition, if the negotiations should fail and fighting is resumed in Korea or breaks out any other place in the world, the immediate inflationary pressures would be that much harder to restrain.

Nevertheless, an end to the "hot war" for now probably would be accompanied by a temporary easing off in business activity. Although the ultimate goals remain the same, the feeling of urgency in the placement and follow-through of defense orders is bound to ease, and spending probably will not increase as rapidly as had been anticipated.

Consumer expectations of lower prices and

complacency regarding the future availability of goods may tend to hold consumer spending at the current reduced level; certainly the possibilities of another wave of heavy buying are greatly reduced. Accumulation of additional inventory will become even less palatable to business, and steady-to-lower prices probably will increase the pressure for liquidation in some lines.

Meanwhile, business activity continues at very high—if not record—levels. Industrial production was maintained at a peak peace-time rate through May and June. Steadily expanding defense output took up most of the slack which resulted from the weak sales and heavy inventory position of most consumers' durable goods. Nonagricultural employment was maintained at the earlier spring level, and wages and salaries continued to edge upward slightly.

Passenger car output has fallen increasingly behind 1950 levels since the beginning of May, which marked the settlement of the Chrysler strike last year. As compared with 1950 levels, May production was down 13 per cent and June 33 per cent, although the number of units turned out dropped only moderately between these two months this year.

Inability to maintain production has been attributed variously to NPA restrictions on the

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use of metals, parts and material shortages, and reduced consumer demand, particularly for the independent makers. Regardless of the causes, however, employment in the industry has gradually declined, and defense work has not yet taken up all the slack in Detroit and other important motor cities in the District. Further sharp cutbacks in production will cause additional unemployment in the coming months, both through layoffs and temporary plant closings.

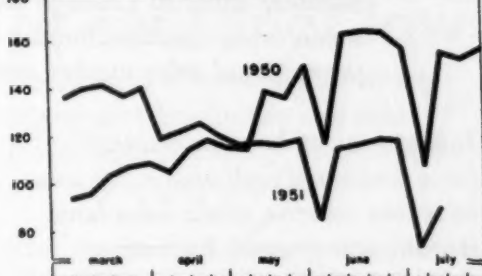
Residential housing starts in Detroit and Chicago have been sharply lower than in 1950 so far this year. A substantial pickup occurred in May, however, with Detroit only 7 per cent lower than in 1950. Nationally, housing starts advanced significantly more than seasonally in June to a point only 10 per cent under last year's boom level, but a jump in public housing was entirely responsible for the rise.

Department store sales have remained relatively stable in recent weeks at a level about equal to that of 1950. Taking account of the price rises which have occurred in the past twelve months, sales of practically all major items are below 1950 in physical terms. Year-to-year comparisons will lose much of their significance in July and August, as they will reflect last year's wave of heavy buying.

Prices paid by consumers have remained virtually unchanged since March, reflecting weaker demand, Government price controls, and the gradual decline in wholesale prices. Nevertheless, consumers' prices are higher than a year ago by 11 per cent in Milwaukee, 9.5 per cent in Indianapolis, and nearly 9 per cent in Chicago and Detroit.

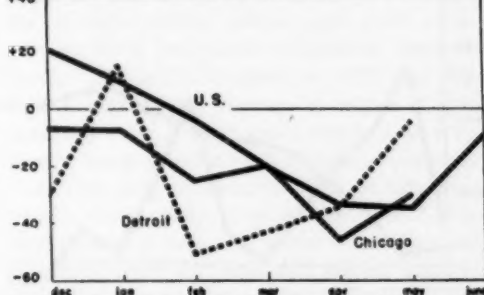
Automobile production has fallen sharply behind 1950 since May

Thousands of cars (World's automotive reports)



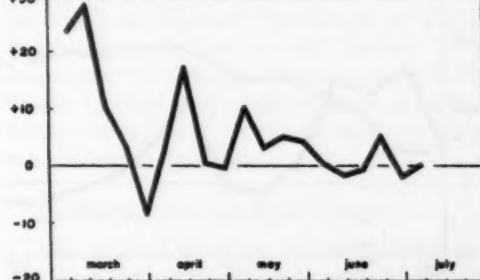
Residential housing starts picked up in May in District cities

Per cent change from previous year



Department store sales in the District have been stable at the 1950 level in recent weeks

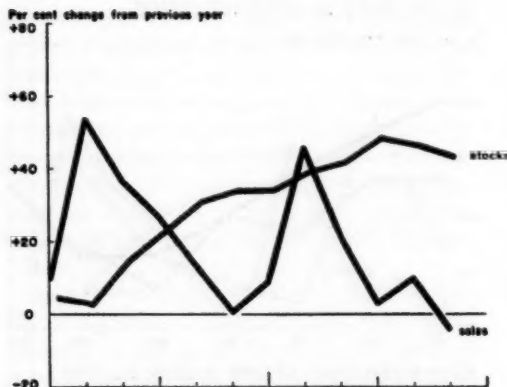
Percentage change from previous year



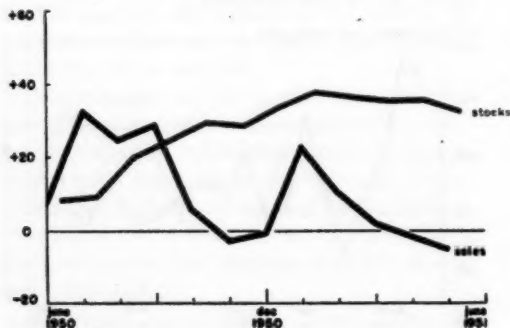
Sales slow at furniture show

Summer show in Chicago finds merchants with bulging inventories, cautious buying intentions—a fill-in, new item, and promotional sales market stirs memories of prewar years.

Inventories of homefurnishings have continued well above last year in recent months, while sales have steadily lost ground, both at department stores...



...and furniture stores



MANUFACTURERS came to Chicago's summer furniture show last month prepared for the worst. Retailers' inventories were high, their sales only fair, and their mood pessimistic. Anticipating considerable buyer apathy, furniture makers broke out their best designs and introduced many new items. Some put more emphasis on their lower-priced lines, and a few even shaved prices a little.

Nevertheless, attendance at the show was an unspectacular 16,000, 14 per cent less than last year. Moreover, most of the buyers who came seemed to do a lot more looking than buying. Prices generally remained firm and manufacturers indicated that business was better than had been expected. It was clear, however, that the volume of orders booked was substantially lower than last year for most firms and far below that of the January show for almost everyone.

The trouble was not hard to spot. Infected by the inflation psychology prevalent until recent months, impressed by talk of coming shortages, and encouraged by strong consumer buying at home, retailers ordered furniture in record volume early last fall and again at the January showings. But the new merchandise failed to move as rapidly as expected, and inventories had grown to ominous proportions well before the Chicago show opened.

Production out-paces sales

High inventories and the sharp slide-off in sales since the scare buying of last winter contribute to the impression that the retail furniture business has experienced a drastic slump during the past few months. Actually, the dollar

volume of retail sales has been fairly satisfactory, with both department and furniture stores showing gains earlier this spring and only a slight decline in May.

In terms of physical volume, however, sales have been lower than in the 1950 spring, since prices advanced substantially in the interim. Part of the drop is accounted for by the inclusion of slumping radio, television, and appliance sales in the totals for both types of outlets. In addition, recent volume has undoubtedly suffered from the heavy forward buying of consumers last winter. Finally, stricter credit terms under Regulation W have cut back the important time payment business significantly.

Equally important in the buildup of inventories has been the successful effort on the part of furniture manufacturers to increase production. In response to the sharp jump in consumer buying following outbreak of war in Korea last summer, new orders placed with manufacturers by retailers were 40 per cent higher than 1949 in July and 80 per cent greater in August. Armed with a backlog of orders more than double that of a year earlier, manufacturers went all out to increase output. Physical production jumped 14 per cent between July and October, and for the last half of the year averaged 26 per cent more than in 1949 and 14 per cent more than in record-breaking 1948.

Order backlogs have been reduced sharply this spring, and by the end of May exceeded the year-ago level by only 30 per cent. Moreover, the monthly volume of new orders has declined steadily since February, and some firms have been forced to reduce production significantly in recent months. Manufacturers hoped for better business as the Chicago market closed and they moved on to July shows in other major furniture cities. Many admitted, however, that they would be hard pressed to keep busy much longer unless their salesmen are highly successful on the road this fall.

Meat supply at seasonal low

*Demand for beef continues strong.
Rising pork production will ease
fourth quarter supply. Consumption
will exceed year-ago level.*

BEEF remains on the menu and orders are brisk, despite the fact that cheaper and just as nutritious cuts of other kinds of meat are available. Americans, of course, like to eat beef and with rising employment and incomes, prices have been bid up in an effort to obtain the coveted steaks, roasts, and even hamburgers. Meat production (excluding poultry) totaled 22.1 billion pounds in 1950 and this year is expected to surpass 23 billion. Cattle and hogs each furnish about one-half of total supply, sheep providing less than three per cent.

In June beef was scarce. Even though consumers were willing to spend freely for it, less than usual was found on family tables. In some instances, retail and wholesale market supplies dwindled to a trickle—a grim reminder of the meatless markets during and immediately following World War II.

The number of cattle offered for sale on public markets was drastically curtailed. At Chicago, for example, June cattle receipts were the lowest in 72 years. The weight of cattle marketed was below average, further contributing to the shortage. Mention was made of "black markets" and cattle salesmen at public stockyards reported the reappearance of buyers not seen in five years.

Rollbacks disrupt beef supply

This unusual situation was precipitated by the May beef price rollbacks ordered by the

Office of Price Stabilization (OPS). Of even greater significance were the additional price rollbacks scheduled to become effective August 1 and October 1 and the resulting "let's wait and see what Congress does" policy on the part of those with cattle to sell.

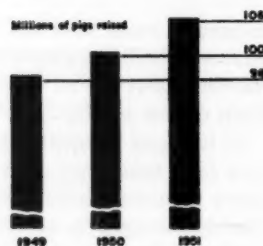
Late in June, Congress extended price controls through July 31, pending agreement on a revised law. Early negotiations promised to continue the May rollback in effect but to prohibit any further lowering of beef ceilings. Most cattle feeders apparently accept this view and have now resumed normal operations except that some are delaying the purchase of feeder cattle in the hope that prices will decline.

Prior to the recent Congressional action, many cattle feeders had refrained from restocking their feed lots. They felt that relatively high feeder cattle prices and high feed costs would not permit them to feed profitably under the proposed rollbacks. This situation, had it continued, would have resulted in stepped-up marketings of cattle on feed and production of more than the usual amount of beef this summer but a sharply curtailed supply next year.

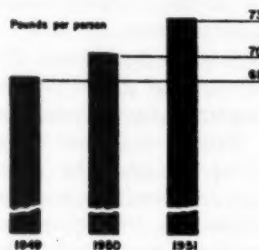
Barring unforeseen developments, particularly those of a political nature, cattle marketings in August and early September prior to the arrival of a significant volume of grass-fat cattle will be at a low level. Coupled with the seasonally low marketings of hogs in August, a fairly tight meat supply situation could develop. Commercial broiler production and farm produced chickens plus cold storage holdings of pork will alleviate this situation somewhat if consumers are willing to change consumption habits.

Pork supplies will exceed 1950

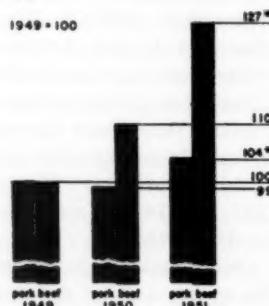
Meat production this year, as previously indicated, is expected to exceed that of 1950 due to increased pork production, which for the first half of the year has been about 10 per cent above that of last year. During the summer



Farmers raise more pigs...



...providing consumers more pork...



...at stable prices, while beef prices rise sharply

*First four months only.

it is expected to be 5 to 10 per cent above a year ago, reflecting the larger pig crop of last fall, and to continue with about this margin over year-ago output through the remainder of the year. Last spring's pig crop is 7 per cent larger than that of last year and the second

largest on record. In recent years plentiful supplies of pork have been available at relatively stable prices (see chart). Cold storage holdings of pork on July 1 were 576 million pounds, nearly one-fourth more than a year earlier. The seasonal rise in hog prices this summer may be less than usual because of price ceilings on pork.

Beef production in 1951, despite the much discussed shortage, is expected to be about the same as last year. There are more cattle on farms but fewer are being grain-fed for market than a year ago. Veal is likely to be in shorter supply as farmers continue to build up cattle herds. Lamb and mutton supplies are expected to be smaller than in 1950 as farmers hold back a large proportion of ewe lambs to rebuild flocks reduced sharply in recent years.

Need for more meat apparent

Increased military requirements reduced civilian meat supplies early in the year. However, the military will need only a little over two per cent of our total meat production, and increased output will provide larger quantities of meat for civilians, especially during the fourth quarter of 1951. Consumption of meat (excluding poultry) is expected to be about 146 pounds per person compared to 144 pounds in 1950. Including poultry, meat consumption per person will equal 178 pounds.

In the short run, the probable decrease in availability of consumers' durable goods under the expanding defense program will permit more income to be spent for meat and other foods. Demand will also rise as diets improve and as population continues to increase. Population is now in excess of 154 million having soared by almost 3 million during the past year. Assuming continuation of this rate of growth we would, at the present rate of consumption, need in 1960 nearly four billion pounds more meat annually than at present.

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Voluntary credit *continued from page 4*
tee member gives his opinion as to whether or not the loan is appropriate under the standards of the program. A consensus is reached and the lender is notified at once of the opinion concerning the questionable application.

Determining the real purpose of business borrowing often poses a knotty problem. This is particularly true of short-term bank loans. A loan granted for the purpose of meeting a pay roll might not have been needed if inventories had not been enlarged. Additional working capital may be required because cash has been spent on new plant or equipment.

The inventory or working capital loan is by nature the most difficult to judge. Only careful balance sheet analysis and knowledge of the business itself can be relied upon in making a decision as to the essentiality of a proposed loan. Is cash on hand high relative to prospective needs or to past holdings? Is inventory large relative to sales? What is the ratio of bank loans to inventory? Often the committees have only meager information with which to answer these questions, yet answer them they must if the intent of the program is to be fulfilled.

Next to short-term bank loans, property loans have probably been the most troublesome to the committees. Since the announcement of the two-thirds loan to fair value standard, some lenders seem to have felt that this is the only test which new real estate credit needs to meet. The committees have often emphasized that it is necessary to screen a real estate loan as to purpose even if it does not exceed this "two-thirds" proportion.

Capital issues are the easiest

In the case of straight long-term capital loans or new bond issues, the situation is simplified because (1) the purpose is usually definitely stated, especially in the case of municipal borrowings, and (2) clearly nonessential capital spending projects are unlikely to receive the

NPA authorization needed for construction.

A few important municipal issues have actually been turned down cold, and in numerous other cases governing bodies have not submitted new issues because of difficulties they knew would arise. In some instances they have been persuaded to defer issues if the money was not needed immediately.

Needs of an urgent character, resulting from population increases, for schools and water and sewer systems, constitute the bulk of new state and municipal offerings, and these issues have been approved by the committees. Loans to finance less essential projects already under way or to prevent undue hardships also have been approved.

This same sort of hardship qualification has necessarily been important in committee decisions on business borrowing as well. In general, the committees feel that their objective of credit restraint does not require disapproval of loans necessary to the continued normal and productive operation of a business.

How effective has the program been?

No ready answer exists to this query. There is no doubt that credit expansion has slowed down considerably in recent months. For example, in the second quarter, bank loans—the major area covered by Voluntary Credit Restraint—have increased less than one-fourth as rapidly as during the first three quarters following Korea. Loans to businesses by large banks throughout the nation actually declined, despite the fact that defense borrowings were beginning to rise substantially.

At the same time, Voluntary Credit Restraint was but one of a number of factors operating to reverse the trend of credit: (1) Borrowing needs tend to drop each spring. (2) The new open market policy of the Federal Reserve System tightened credit by forcing lenders to take a loss when switching from Government securities to private obligations. (3) Prices of

VOLUNTARY CREDIT RESTRAINT (VCR) COMMITTEES IN THE MIDWEST

Seventh District Commercial Banking VCR Committee

CHAIRMAN: Homer J. Livingston,
President
The First National Bank
of Chicago
Chicago, Illinois

Michigan Commercial Banking Committee

CHAIRMAN: Donald F. Valley,
General Vice President
National Bank of Detroit
Detroit, Michigan

Iowa Commercial Banking Committee

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Mid-Western Insurance VCR Committee

CHAIRMAN: Willard N. Boyden,
Vice President
Continental Assurance
Company
Chicago, Illinois

Mid-Western Investment Banking VCR Committee

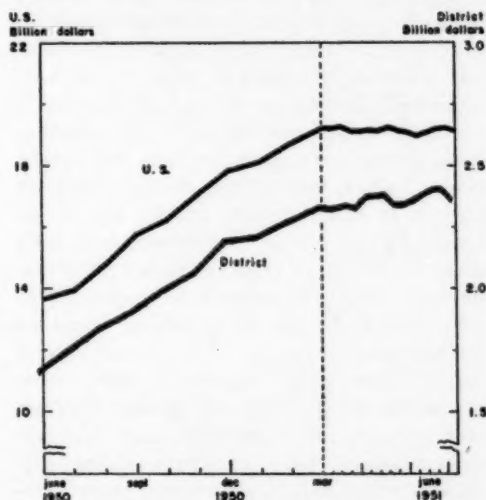
CHAIRMAN: D. Dean McCormick,
McCormick and Company
Chicago, Illinois

Seventh District Savings and Loan VCR Committee

CHAIRMAN: Walter Gehrke, *President*
First Federal Savings and
Loan Association of
Detroit
Detroit, Michigan

For business loans, a change of pace—

The rise in business loans at leading cities has slowed within the District, and halted for the nation...

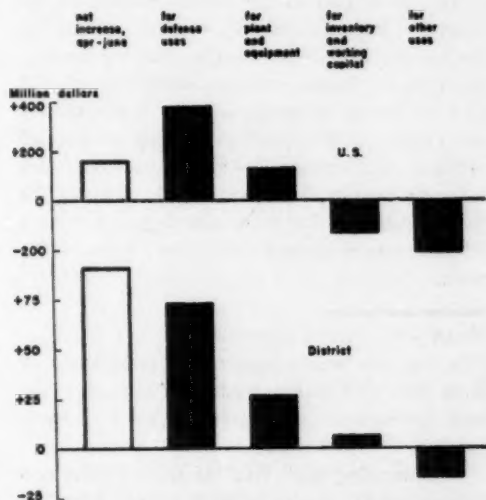


most items leveled off or declined. (4) Consumer buying dropped off and an inventory problem arose for many dealers. (5) More lenders began to feel "loaned-up" because of their sharply higher ratios of risk assets relative to capital accounts and to liquid assets.

Some benefits certain

Even with these overshadowing influences, several real advantages can be scored for the program. For instance, lenders need now have less concern that good customers will go elsewhere when their request for a loan has been turned down because it appeared too inflationary. Moreover, lenders may cite the opinion of the committees when refusing a loan which has been determined to be nonproductive or unnecessary. Finally, the program has helped make lenders aware of the potent inflationary forces which are unleashed by continued loan

...with most of the new money from larger banks now going for defense and plant expansion uses.



expansion. Since many of them are in a position which requires that credit be rationed, they usually are willing to apply the standards set up under the program in selecting new credits.

Because of the numerous and often confidential factors involved in lending decisions, the precise effect of the program can never be measured in dollars and cents terms. We do know, however, that a growing total of loans which might otherwise have been made, have not been made.

In the period ahead, Voluntary Credit Restraint can become even more significant. On the one hand, the backlog of hardship cases and pre-program commitments will have been worked down. On the other hand, a rising tide of seasonal and defense demands for funds will intensify pressures upon lenders. Thus, the coming months will present the Voluntary Credit Restraint Program with both its severest challenge and greatest opportunity.

Crops *continued from page 5*

Truck crops for commercial processing are growing on nearly a fifth more acres than last year.

The final outpouring of crops will be influenced importantly by weather conditions during the remainder of the growing season. But with the largest acreage planted since 1933 and good yield prospects on July 1, the USDA has estimated that production may exceed all previous years except 1948. Realization of this estimate should lend remarkable stability to food prices in the year ahead—unless rising income causes consumers to go hog-wild for meat.

Meat *continued from page 13*

This increase would require the production of more than 600 million bushels of corn or other feed equivalents, an amount equal to nearly one-fifth of 1950 production.

A continuing high level of meat production is contingent upon favorable feed-livestock price ratios for producers and upon adequate supplies of feed. Heavy feeding rates to a large livestock population in the past year are reducing feed supplies. Consumer demand for meat expands rapidly with rising employment and income. Increasing population and rising levels of living in the future, will provide livestock producers a great challenge in their attempt to provide the desired steaks, hams, and chops around which housewives may build tasty and nutritious menus.

Sales *continued from page 7*

been weakened by the comparatively minute style changes which occurred this year. Men's and boys' wear at the latest date were no less pallid by comparison with first of the year increases than other departments. Here, the current sales lull may be the result of demand satisfaction and some hesitancy in accepting the newer fabrics.

Third quarter sales probably will be below last year owing to the nonrecurring heavy buying which followed the outbreak of war in Korea. The price structure in apparel is weakening, and the demand for home goods may be reduced by the decline in residential construction. With continued high incomes, however, any softening of prices is likely to put consumers in a buying mood—unless they expect a continued downtrend. Apparel and accessory items which make up the bulk of department store sales have been comparatively inactive for some time and therefore are due for an increase. Fall orders for merchandise have been slow, according to retail sources, and inventories in stores will probably be worked off to some extent. In this event, stores would be able to take advantage of any price cuts in apparel lines which may stem from recent declines in textile prices. The general direction of both sales and inventories, however, will depend largely upon consumer buying psychology which may be determined by developments in Korea and elsewhere.

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